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C O N F I D E N T I A L SECTION 01 OF 03 NASSAU 000851

SIPDIS

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SUBJECT: DECISION ON LNG PROJECT STILL PENDING

Classified By: Ambassador John Darrell Rood, Reasons 1.4 b and d

1. (C) SUMMARY: Representatives from the U.S.-based AES Corporation visited the Ambassador on April 27 to discuss the status of their proposed \$650 million Liquefied Natural Gas project. AES expressed its frustration at the inability to get a final decision from Prime Minister Perry G. Christie, whom they claim is delaying a decision in an effort to get them to withdraw so he will not be blamed for the project's failure. AES is the current front-runner to get the LNG project. Opposition has centered on the impact any possible environmental damage would have on the Bahamian tourist industry. END SUMMARY.

2. (U) The Bahamian government is currently considering a pair of competing proposals for a Liquefied Natural Gas (LNG) facility and pipeline in The Bahamas. Both projects would include an import terminal, a re-gasification plant, and an undersea pipeline to South Florida, in addition to other support infrastructure. Florida Light and Power is expected to be the final customer in the U.S.

AES Proposal for Ocean Cay

3. (U) U.S.-based Applied Energy Services Corporation (AES) has proposed a \$650 million project to build an LNG facility on Ocean Cay in the northern Bahamas.

4. (U) Ocean Cay is a 95-acre man-made island situated 20 miles south of Bimini and 65 miles east of Miami. It was built in 1970 as a site for aragonite dredging and processing. AES proposes to construct a LNG importation and regasification facility; a Liquefied Petroleum Gas (LPG) removal plant; a seawater desalination plant; and an undersea Natural Gas (NG) supply pipeline. The proposed pipeline would be constructed of steel and extend approximately 64 kilometers from the Ocean Cay site to a connection point at the U.S. Exclusive Economic Zone (EEZ) boundary. Linkage would be made from there to the Ocean Express Pipeline, which, in turn, would transport the Natural Gas to South Florida for distribution.

5. (U) AES Ocean LNG Ltd. submitted an Environmental Impact Assessment (EIA) to the Bahamian government in 2003. The Bahamas Environmental Science and Technology (BEST) Commission contracted U.S.-based ICF Consulting to review the EIA and opened it for public comment in November 2003. The BEST Commission completed its review and forwarded the EIA to the Cabinet for approval. AES was issued U.S. Federal Environmental Regulatory Commission (FERC) approval in December 2003.

6. (U) The Applied Energy Services Corporation (AES) is a U.S. company founded by two former U.S. Government officials in 1981. It is listed on the S&P 500 and operates power generation facilities in 27 countries around the world, including an LNG terminal and natural gas pipeline at AES Andres in the Dominican Republic. Its Ocean Cay project would be operated by AES Ocean LNG, Ltd.

AES Representatives Visit Ambassador

7. (C) AES officials Aaron Samson and Scott J. Taylor and their locally retained attorney, H. Campbell Cleare, III, visited Ambassador Rood on April 27 to provide an update on their LNG proposal and to request assistance in dealing with an indecisive Christie cabinet. Samson explained that AES has already spent over \$55M on this project, an agreement in principle has been signed, and the Prime Minister will not speak to them because there are no other requirements that AES must satisfy. Attorney Cleare said that the PM has difficulty with the project because of his concerns about any accident at an LNG facility on tourism and wants to delay the LNG project as long as possible.

8. (C) Cleare suggested that the Prime Minister orchestrated the recent public battle between Cat Cay resident and LNG opponent Manny Diaz and LNG advocate Minister Leslie Miller on Cat Cay (see para 12) as part of his strategy to delay the project until AES gives up and pulls out. If AES withdraws, PM Christie believes he will not be held responsible for the failure of the project. Nevertheless, the PM has told both

Ambassador Rood and Cleare that the project will be approved.

19. (U) AES officials are especially frustrated with Bahamians and complained that although they have visited an operating AES LNG plant and seemed to be convinced of its safety, they now fail to speak out in favor of an LNG plant on Ocean Cay.

110. (U) At an April 20 meeting attended by visiting Caribbean Affairs Director Brian Nichols and DCM, David Davis and Ronald Thompson of the Office of the Prime Minister said on the topic, without elaboration or explanation, that, in their opinion, "LNG is dead." After being asked about this comment, Foreign Minister Mitchell assured the Ambassador that no decision has been made.

Tractabel/El Paso Proposal for Grand Bahama

111. (U) Tractabel North America (a subsidiary of a French giant Suez) and El Paso in December 2004 united what had been independent bids for the LNG project. The partnership is expected to utilize El Paso's "Seafarer Pipeline" location at South Riding Point in Eastern Grand Bahama, a site with fewer environmental concerns than the facility in Freeport Harbour that Tractabel (and the Grand Bahama Port Authority) had been advocating. Neither Tractabel nor El Paso have yet received Bahamian environmental approval for their project.

Impact on Economy

112. (U) Minister of Trade and Industry Leslie Miller, the government's chief proponent of LNG, estimates the project will generate approximately \$40 million in average annual revenues over the course of the next 25 years, for a total contribution to the public treasury of nearly \$1 billion. The project is also expected to create about 450 jobs during the construction phase and 25-35 permanent positions thereafter.

Debate Gets Nasty

113. (U) Residents of Cat Cay, an island eight miles from Ocean Cay, held a public forum to discuss LNG on April 3. Minister Miller, present to represent the government, walked out of the session during the showing of an anti-LNG video commissioned by some of the residents. After returning to the event, Minister Miller had a heated exchange with Manuel Diaz, president of the Cat Cay Yacht Club and a staunch opponent of LNG. The two shouted back and forth, with Mr. Diaz referring to Minister Miller as "an idiot" who was "behaving like a child."

114. (U) Local environmental group "Re-Earth" has loudly advocated against LNG, focusing on the dangers posed by the gas while in transit and while being processed, and the potential damage to the air, oceans and marine life in the vicinity of the terminal. Re-Earth launched a "Say No to LNG" petition which has garnered approximately 1500 signatures as of May 2. Bahamian Ambassador for the Environment Keod Smith has expressed his doubts that The Bahamas has the regulatory oversight necessary to safely host the LNG project. He also does not believe that The Bahamas has the capability to protect the pipeline from potential terrorist attack.

115. (U) Minister Miller alleged in a radio interview on May 1 that Re-Earth's opposition is getting more media attention than it normally might because the group's leader, Ms. Sam Duncombe, is white. Said Minister Miller, "Had this been a regular Bahamian of a hue like you and I, it would not have been tolerated or she would not have gotten the coverage that she has certainly gotten." The opposition Free National Movement (FNM) immediately issued a statement denouncing Minister Miller's statement as "wicked and evil." Minister Miller on May 2 said he was sorry if Ms. Duncombe was offended by his remarks, which he said were not meant to be derogatory.

116. (U) Both advocates and opponents of LNG have stepped up their public relations campaigns in recent days, with ads now appearing on a daily basis in the print media and throughout the day on radio and television. The Ministry of Trade and Industry and the BEST Commission are scheduled to hold a public forum on LNG on Thursday, May 5.

Comment

117. (C) The consideration of the various LNG proposals typifies the slow and opaque decision-making process of the

Christie government. Government ministers have been promising a decision "in a few weeks" for nearly two years.

18. (C) Even for the consensus-driven society of The Bahamas, the LNG debate has been long, protracted, and increasingly bitter. Some insiders have insisted that several members of the Cabinet have personal financial stakes in the competing bids and are taking positions within Cabinet based on how they will personally profit from the outcome. In the end a cash-strapped Bahamian Government may be forced to make a decision about an LNG facility so it can start collecting the revenue the project will generate.

ROOD